

**SENATE FISCAL AGENCY  
MEMORANDUM**



**DATE:** September 12, 2005  
**TO:** Members of the Senate  
**FROM:** Gary S. Olson, Director  
**RE:** FY 2005-06 Budget Agreements

On Friday, September 9, 2005, Governor Granholm and Republican and Democratic Leadership of the House of Representatives and the Senate reached agreement on the outline of an overall agreement on the FY 2005-06 State budget. This budget agreement included detailed revenue assumptions and General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) appropriation targets. This memorandum provides an outline of the revenue and appropriation assumptions contained in the FY 2005-06 budget agreement and the estimated year-end balances in the GF/GP and School Aid Fund budgets.

**Year-End Balance Estimates**

Table 1 provides a summary of the FY 2005-06 GF/GP assumptions of revenue, expenditures, and year-end balances contained in the budget agreement. Total GF/GP revenue will equal \$8.98 billion, including \$8.21 billion of consensus revenue estimated at the August 17, 2005, meeting of the Consensus Revenue Estimating Conference. Total GF/GP appropriations will equal \$8.98 billion leaving a projected FY 2005-06 GF/GP year-end balance of \$0.4 million. Table 2 provides a summary of the FY 2005-06 SAF assumptions of revenue, expenditures, and year-end balances in the budget agreement. Total SAF revenue will equal \$12.76 billion, including \$11.23 billion of consensus revenue estimated at the August 17, 2005, meeting of the Consensus Revenue Estimating Conference. Total SAF appropriations will total \$12.76 billion leaving a projected FY 2005-06 SAF year-end balance of zero.

**Revenue Assumptions**

In addition to the consensus revenue agreed to at the August 17, 2005, meeting of the Consensus Revenue Estimating Conference the budget agreement contains numerous other revenue assumptions. These revenue assumptions include the following:

**Tax Increases:** The budget agreement is developed based on the assumption of no new revenue from general tax increases.

**Fee Increases:** The budget agreement is developed based on the assumption of no new fee increases.

**Revenue Sharing Adjustments:** The budget agreement includes \$560.1 million of GF/GP revenue from the assumption that revenue sharing payments to cities, villages, and townships will be frozen in FY 2005-06 at the overall levels appropriated in FY 2004-05. Counties would not receive revenue sharing payments in FY 2005-06 and would offset this loss of revenue sharing payments from reserve funds resulting from the changes in the timing of county property tax collections instituted in the summer of 2005.

**Pharmaceutical Tax Credit:** The budget agreement includes \$10.0 million of GF/GP revenue from the non-use of a single business tax pharmaceutical tax credit.

**Interfund Borrowing Revenue:** The budget agreement includes \$20.0 million of GF/GP revenue from changes in the State's interfund borrowing costs not included in the consensus revenue estimates.

**Tobacco Securitization Interest Earnings:** The budget agreement includes \$31.0 million of GF/GP revenues from interest earnings associated with the proposal to securitize \$1.0 billion of tobacco settlement revenue during FY 2005-06.

**Escheats Revenue:** The budget agreement includes \$10.0 million of GF/GP revenue from escheats revenue not included in the consensus revenue estimates.

**Land Sales:** The budget agreement includes \$60.0 million of GF/GP revenues from the sale of various surplus State and local school district lands. The largest amount of this revenue is expected to be received from the sale of surplus State property in Northville.

**Agricultural Equine Fund Transfer:** The budget agreement includes \$2.0 million of GF/GP revenue from a transfer of casino tax revenue from the Agricultural Equine Fund to the GF/GP budget.

**Remonumentation Fund Transfer:** The budget agreement includes \$15.0 million of GF/GP revenue from the one-time transfer of surplus revenue in the Remonumentation Fund to the GF/GP budget.

**Comprehensive Transportation Fund Transfer:** The budget agreement includes \$11.1 million of GF/GP revenue from the transfer of Comprehensive Transportation Fund revenue to the GF/GP budget.

**Financial Institutions Fund Transfer:** The budget agreement includes \$15.0 million of GF/GP revenue from the one-time transfer of surplus Financial Institutions Fund revenue to the GF/GP budget.

**State Services Fee Fund Transfer:** The budget agreement includes \$6.0 million of GF/GP revenue from the transfer of surplus casino fees in the State Services Fee Fund to the GF/GP budget.

**Enhanced Tax Enforcement:** The budget agreement includes \$24.6 million of GF/GP revenue and \$9.5 million of School Aid Fund revenue from the appropriation of \$5.6 million in the Department of Treasury to hire new staff for tax enforcement and compliance efforts.

**Keno Expansion:** The budget agreement includes \$13.0 million of SAF revenue resulting from the expansion of Keno games across the State.

The overall level of FY 2005-06 GF/GP revenue equals \$8.98 billion which represents a \$322.9 million or 3.7% increase from the projected level of FY 2004-05 GF/GP revenues. The overall level of FY 2005-06 SAF revenue equals \$12.76 billion which represents a \$289.3 million or 2.3% increase from the projected level of FY 2004-05 SAF revenue.

**Table 1**  
**FY 2005-06**  
**General Fund/General Purpose**  
**Revenue, Expenditures, and Year-End Balance**  
**(Millions of Dollars)**

	<b>Target Agreement</b>
<b>Revenue:</b>	
Beginning Balance .....	\$ 0.0
Consensus Revenue Estimate .....	8,212.9
Revenue Sharing Adjustments .....	560.1
Non-Use of SBT Pharmaceutical Credit .....	10.0
Cap Interfund Borrowing Rates .....	20.0
Interest Earnings Tobacco Securitization .....	31.0
Escheats Revenue .....	10.0
Land Sales .....	60.0
Agriculture Equine Fund Transfer to GF/GP .....	2.0
Remonumentation Fund Transfer to GF/GP .....	15.0
Comprehensive Transportation Fund Transfer to GF/GP .....	11.1
Financial Institutions Fund Transfer to GF/GP .....	15.0
State Services Fee Fund Transfer to GF/GP .....	6.0
Enhanced Tax Enforcement Revenue .....	24.6
<b>Total Revenue .....</b>	<b>\$8,977.7</b>
<b>Expenditures:</b>	
Appropriation Target .....	\$8,977.3
<b>Total Expenditures .....</b>	<b>\$8,977.3</b>
<b>Projected Year-End Balance .....</b>	<b>\$0.4</b>

**Table 2**  
**FY 2005-06**  
**School Aid Fund**  
**Revenue, Expenditures, and Year-End Balance**  
**(Millions of Dollars)**

	<b>Target Agreement</b>
<b>Revenue:</b>	
Beginning Balance .....	\$ 1.0
Consensus Revenue Estimate .....	11,233.1
<b>Other Revenue Adjustments:</b>	
Payments in Lieu of Taxes .....	(2.0)
GF/GP Grant .....	62.7
Keno Expansion .....	13.0
Enhanced Tax Enforcement Revenue .....	9.5
School Bond Loan Fund Reform Revenue .....	44.5
FY 2003-04 Revenue Receivable .....	3.0
Federal Revenue .....	1,392.6
Subtotal Other Revenue Adjustments .....	1,523.3
<b>Total Revenue .....</b>	<b>\$12,757.4</b>
<b>Expenditures:</b>	
Appropriation Target .....	\$12,757.4
<b>Total Expenditures .....</b>	<b>\$12,757.4</b>
<b>Projected Year-End Balance .....</b>	<b>\$ 0.0</b>

## Appropriation Targets

Table 3 provides a summary of the FY 2005-06 GF/GP appropriation targets contained in the budget agreement. The individual departmental appropriation bills will have to be developed utilizing these appropriation targets. The GF/GP appropriation targets equal \$8.98 billion. This level of FY 2005-06 GF/GP appropriations exceeds the year-to-date level of FY 2004-05 GF/GP appropriations by \$296.9 million or 3.4%. The School Aid Fund appropriation target of \$12.76 billion exceeds the year-to-date level of FY 2004-05 SAF appropriations by \$290.3 million or 2.3%.

**Table 3**  
**FY 2005-06**  
**General Fund/General Purpose**  
**Budget Target Summary**

Department/Budget Area	FY 2005-06 Targets
Agriculture .....	\$28,362,700
Attorney General .....	31,501,200
Capital Outlay .....	256,002,200
Civil Rights.....	12,108,700
Civil Service.....	7,102,400
Community Colleges .....	281,327,400
Community Health .....	2,951,899,400
Corrections .....	1,781,150,700
Education.....	16,450,400
Environmental Quality .....	31,809,600
Executive .....	5,375,500
Higher Education.....	1,576,938,100
History, Arts, and Libraries .....	41,821,900
Human Services .....	1,081,314,000
Information Technology .....	0
Judiciary .....	157,614,500
Labor and Economic Growth.....	70,381,600
Legislature .....	124,673,900
Management and Budget.....	35,217,900
Military Affairs .....	37,789,100
Natural Resources.....	25,593,800
School Aid .....	62,714,000
State .....	13,497,800
State Police .....	235,361,600
Transportation .....	0
Treasury (Debt Service) .....	52,886,900
Treasury (Operations) .....	57,684,500
Treasury (Revenue Sharing) .....	712,000
<b>TOTAL GF/GP .....</b>	<b>\$8,977,291,800</b>

The highlights of the appropriation targets include the following:

**Community Health:** The budget agreement includes funding of Medicaid caseloads based on the consensus estimate of caseloads. The budget will include language requiring a study of Medicaid cost containment measures that could be implemented in the future.

**Corrections:** The budget agreement includes funding of all State prisons currently operating and funding for the privately run Youth Correctional Facility in Baldwin. The budget will include language requiring reports on the effectiveness of prisoner education programs and prisoner recidivism programs.

**Higher Education:** The budget agreement funds the Tuition Grant Program at \$3.0 million below the current year level and provides for full funding of the Merit Award Scholarship Program. Operating funds for universities will include \$6.9 million of floor funding and \$6.9 million of funding through a new funding model.

**Human Services:** The budget agreement provides for funding of Human Service caseloads based on the consensus estimate of caseloads. The budget contains no new restrictions on the duration of time welfare recipients can receive benefits. The budget will include language involving two pilot projects to reduce welfare caseloads.

**School Aid:** The budget includes funding for a \$175 increase in the basic foundation allowance. This marks the first increase in the State's per pupil funding for local school districts and public school academies since FY 2002-03 when the basic foundation allowance was increased to \$6,700. The budget also will include a one-time \$7.0 million special grant to the Detroit Public Schools to assist the district in the conversion from a State controlled administrative structure to control by an elected school board. This conversion will take place on January 1, 2006.

**Treasury:** The budget includes \$5.6 million for the Department to expand efforts to enhance tax collections and enforcement of tax laws.

### **Structure of Appropriation Bills**

During June 2005 the Senate and the House of Representatives approved different structures to implement the FY 2005-06 appropriation bills. The Senate passed the appropriation bills in the traditional departmental format and the House of Representatives rolled up all of the appropriations into one bill with the exception of the appropriations for K-12 School Aid. The final FY 2005-06 appropriation bills will be structured as a combination of the methods originally utilized by the Senate and the House of Representatives. The Senate will be responsible for individual appropriation bills that normally would have initiated in the Senate. These Senate-originated bills will be in the traditional departmental format. The House will be responsible for individual appropriation bills that normally would have initiated in the House. The House will roll these budget areas into a single bill. The appropriation bill for K-12 School Aid will continue in the traditional format.

The following provides a listing of the FY 2005-06 appropriation bills that will be the primary responsibility of the Senate and the House of Representatives.

**Senate-Originated Bills**

Agriculture  
General Government  
History, Arts, and Libraries  
Human Services  
Judiciary  
Labor and Economic Growth  
Military and Veterans Affairs  
State Police  
Transportation  
Capital Outlay

**House-Originated Bills**

Community Colleges  
Community Health  
Corrections  
Education  
Environmental Quality  
Higher Education  
Natural Resources  
School Aid

The House of Representatives will prepare the rolled-up appropriation bill for departments originating in the House utilizing this procedure. Senate-passed bills that are currently in conference committee will be where the decisions are made on appropriation issues. Pursuant to a change in joint House and Senate rules, these conference committees on the House-originated bills will be chaired by House members. Once all of the House-originated bills are approved by the individual conference committees, the House will compile all of these conference reports into House Bill 4831 which is also currently in conference committee. House Bill 4831 then will be the conference committee report approved by the House and Senate to implement the House-originated appropriation bills.

If you have any specific questions on the FY 2005-06 budget agreement, please call my office at 3-5300.

/kjh

c: Ellen Jeffries, Deputy Director  
SFA Fiscal Analysts